

HELLABY HOLDINGS LIMITED

Annual Meeting

11 November 2010

CHIEF EXECUTIVE'S ADDRESS:

(slide 2) John Williamson, Chief Executive

Thank you, John, and good afternoon everyone.

(slide 3) Achievements this year

As John has said, we believe this was the final year of a three year turnaround of Hellaby, and the worst is now well and truly behind us.

Our vastly improved results this year were an appropriate reflection of the work that has gone into transforming the culture and performance of the group. Business conditions remained incredibly challenging and market demand was down in every sector we operate in. However despite group sales declining for a second successive year, we improved margins across the majority of our subsidiaries and significantly increased operating earnings for the year.

Rigorous focus on cashflow generation and working capital improvement resulted in a 29% reduction in total net debt for the year – and as a result, our balance sheet and investment portfolio are now substantially de-risked.

We've put tremendous focus on ensuring our subsidiaries are appropriately structured and resourced to meet the challenges and opportunities facing them. That restructuring has continued through 2010 and we're now confident that our businesses have excellent management teams, and are operating with tight financial disciplines and simple clear strategies.

The performance gains from these initiatives are not only evident in this year's result but are now flowing through to shareholders. Total shareholder return, which is measured by share price increase plus dividend, improved by 39.5% for the year to 30 June 2010. It is also pleasing to report that in the first four months of this financial year our total shareholder return has further increased by approximately 40% (allowing for the dilutionary effects of the recent rights issue), demonstrating that investor confidence is indeed starting to return.

Subsequent to the financial year end, with the company finally in a position to look to the future, we successfully completed a rights issue which was oversubscribed and well received by the market.

In summarising our position now compared to a year ago, I'd say that Hellaby now has a more conservative capital structure, greater financial flexibility and is well positioned for future growth and improved profitability.

I'll now take you through our performance in a bit more detail, starting with the balance sheet.

(slide 4) Balance sheet reform

Looking back, Hellaby's total net debt had reached a high point of \$165.6 million at 31 December 2007, with an unacceptably high debt gearing of 65.1%.

At 30 June 2010, two and a half years later, our net debt had reduced to \$73.3 million, with a debt gearing of 42.3%.

The debt reduction over this period was primarily driven through much more disciplined use of working capital, a more realistic dividend policy, some minor asset sales and, more recently, from improved earnings. It has arguably been swifter, deeper and more sustainable than market commentators ever imagined was possible, and has certainly defined a new Hellaby culture of ownership and accountability.

Eighteen months ago we identified an initial debt gearing target of 50% or below, which we subsequently achieved. We now believe an appropriate debt gearing is 45% or below, and plan to operate within that.

(slide 5) Capital management

This balance sheet reform enabled us to refinance with our principal bank Westpac in August 2010, for a period through to 31 July 2012.

In September 2010 we announced a 3:7 pro-rata renounceable rights offer with the objective of creating a more conservative capital structure; increasing our financial flexibility; and positioning Hellaby well for future growth and improved profitability.

This equity raising was well received by the market and was oversubscribed, enabling the company to successfully raise \$28.4 million.

At last year's annual general meeting we advised you that we would communicate early our intentions regarding the \$50 million capital notes which mature in June 2011.

In October 2010, we advised the market that Hellaby will make an early cash redemption of the capital notes. This redemption, which is permitted under our Trust Deed, will take place six months early on 15 December 2010, and will be funded by bank debt at significantly lower interest rates than that of the capital notes.

This initiative is consistent with our recent equity raising objectives. We will reduce the company's overall interest cost through our banking facilities, but will still retain sufficient capacity to fund future growth opportunities within our debt gearing targets.

Few market commentators would have picked this turnaround in our balance sheet and capital structure 18 months ago, when our share price was below 50 cents and our capital notes were trading at a 40% discount to face value. The truth is that this management team and board always had firm targets and timeframes in mind, which we have achieved.

We are now confident that Hellaby has the appropriate capital structure for the current economic and trading environment, and is well placed to generate superior shareholder returns going forward.

Dividends resumed in April 2010, and the board's dividend policy of distributing 50% of NPAT remains in place. The board continues to recommend the company's Dividend Reinvestment Plan (or 'DRP') to shareholders, and we note that the final dividend payable tomorrow has a 33% DRP participation rate.

(slide 6) Group financial performance

For the year under review, total group revenue was down 4.8% to \$457 million, reflecting lower market demand and tough trading conditions across most subsidiaries. Nonetheless, EBITDA margins (EBITDA/sales) improved overall, particularly in our Packaging division, and as a result group EBITDA was \$27.7 million, up 4.6% against last year. Group EBIT was \$20.3 million, up 11.8% against last year, and the group's net profit after tax of \$10.3 million was a big improvement on the previous year's result of \$0.7 million. Hellaby's earnings per share were 20.3 cents, compared to 1.4 cents last year.

Given that we have been dealing to legacy issues in appalling economic conditions, these are excellent results in the circumstances.

Hellaby's key internal measure is return on funds employed – or ROFE - which is EBIT as a percentage of average working capital plus fixed assets. ROFE for the year to 30 June 2010 was 17.4%, compared to 12.8% the previous year. Looking ahead, we will be targeting a ROFE performance of greater than 20%. A ROFE of less than 20% - both at a group and subsidiary level - will in future be unacceptable to this management team and board.

Another key driver of performance at Hellaby is free cashflow, which is cash from operations less net operational capex. Continued focus by subsidiaries on working capital management and return on funds employed resulted in \$36.0 million of free cashflow being generated last year. This was an outstanding achievement by our businesses.

(slide 7) Operational achievements

Hellaby structures its investment portfolio through four divisions – Automotive, Equipment, Packaging and Footwear. The recession and consequent restructuring that has been required has impacted on all our operating divisions. As we said last year, our focus has been on putting in place the appropriate initiatives to reconfigure our businesses around lower activity levels.

We have given a detailed outline of our divisional composition and performance in this year's annual report, and we would encourage shareholders to read this report.

Rather than covering the performance of each division last year, I will instead describe the progress of three subsidiaries. Each has faced entirely different challenges, but I believe these examples collectively illustrate how Hellaby is adding value to its businesses through being an active portfolio manager.

Firstly, Diesel Distributors, which has the leading market position in Australia and New Zealand for diesel fuel injection product supply. This business was one of our shining stars in the past year with

improved sales, margins and working capital ratios. Benefits are now flowing from cost reductions, restructuring and inventory management improvements which were initiated in the previous year.

I'm citing this example of Diesel Distributors because it has achieved a radically improved return on funds employed through working capital initiatives. Also, Diesel Distributors is one of our smaller businesses. We don't mind owning smaller businesses if they perform consistently well, and if they fit logically into a larger core investment sector – in this case, automotive parts.

Secondly, Elldex Packaging, which has developed a leading position in the sourcing, manufacture and distribution of flexible plastic packaging. Three years ago we acquired two under-performing packaging manufacturers – one was actually in receivership – and we have subsequently integrated those two new businesses into our original Elldex Packaging business to form one packaging group. In addition, we have repositioned Elldex's product offering way beyond its original singular dependency on supermarket and retail bags, into primary sector food and timber packaging.

Despite flat sales last year, the company significantly improved its margins with better internal processes, resulting in an EBIT improvement of 153% over the previous year. Having now established a solid business model and performance platform, our focus with Elldex Packaging clearly shifts to trans-Tasman sales growth.

I've given you this example of Elldex Packaging partly because this successful roll-up, which occurred in mid-2007, represents the only acquisitions undertaken to date at Hellaby by this current management team.

Acquisitions going forward are likely to be businesses which we can 'bolt-on' to existing subsidiaries in sectors which we understand and where we are already achieving acceptable returns. We're not afraid to restructure or reposition newly-acquired businesses, so as to increase shareholder value. We will always undertake rigorous operational due diligence, and we'll always have a clear 'big-picture' plan. Elldex has been a successful roll-up and integration, and it provides a good illustration of our approach to M&A activity.

Thirdly, Number 1 Shoes has been a struggling and under-performing investment for several years. Hellaby put a new leader into that business towards the end of 2009, and the business has subsequently been subject to immense change over the past 12 months under a new senior management team. Number 1 Shoes has developed a dramatically better team culture, management depth, and has improved its internal process disciplines and customer focus. A store renewal and rebranding programme has now commenced, and the repositioning of Number 1 Shoes will become evident to consumers as it is rolled out through our 50 stores.

Number 1 Shoes is an excellent example of what can be achieved when you appoint the right leader, and when you are then prepared to take a bold, calculated risk and completely restructure and reposition a business and team culture. Hellaby is not afraid to directly intervene when a business is performing poorly.

(slide 8) First quarter performance and FY11 outlook

The good news is that the company's financial performance in the first quarter of this new financial year (the three months to 30 September) is ahead of the same period last year in terms of EBITDA and NPAT. The bad news is that we don't yet see any of the so-called 'green shoots'.

Group sales for the first quarter are 2.4% ahead of the corresponding period, although our overriding observation is that economic conditions in all our sectors remain very flat.

Group EBITDA for the first quarter is \$3.1 million ahead of last year, and group NPAT for the first quarter is \$2.7 million ahead of last year. Particularly encouraging is the fact that our two struggling divisions – Equipment and Footwear – have performed better than last year for this first quarter. Number 1 Shoes in particular is performing well ahead of expectations. I do need to remind you however, that Hellaby's first quarter profit performance is usually less significant than the other quarters in terms of its relative contribution to the full year result.

Our total net debt at 30 September 2010 was \$80 million, including the \$50 million capital notes. Consequently, our debt gearing at 30 September was 45%, prior to completing the recent equity raising. With the equity raising completed and a debt gearing two weeks ago at 31 October of 30%, we clearly now have some capacity to fund future growth opportunities within our target gearing levels of 45% or below.

The board believes that despite ongoing soft economic conditions Hellaby will achieve significantly improved earnings for the coming financial year, with operating profit continuing to be seasonally weighted to the second half.

In this current financial year, our key operational challenges are to improve the profitability of the Equipment and Footwear subsidiaries, and to drive organic growth in our Automotive and Packaging subsidiaries.

I believe that driving growth will initially be tougher for our people than driving turnarounds – particularly in the current economic climate. However, profitable growth – and in particular, organic growth - will now be a critical expectation we'll have of our leaders and investments going forward.

(slide 9) People

The calibre and mindset of our people is undoubtedly key to our future success. We have worked tirelessly to create a leadership culture of ownership, accountability and continuous improvement across all our subsidiaries, and we're pleased that it's now starting to pay dividends through improved performance.

The group-wide recruitment of talented management to strengthen subsidiary senior management teams over the past two years has already had a significant impact. All our subsidiaries now have excellent management teams who are achieving positive returns from the initiatives they have driven in their businesses.

Hellaby will continue to actively manage its investment portfolio through a small, lean corporate office and will largely decentralise leadership and performance accountabilities to subsidiaries.

The subsidiaries must compete for capital, justify projects and expenditures, obtain buy-in for strategy and direction, and have full responsibility for delivering against profitability and ROFE targets.

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Stakeholder relations

Over the last year we have tried to be more proactive in our communication to the market and our engagement with stakeholders. We believe we have clearly and consistently stated the issues and opportunities confronting us, we have identified and communicated straightforward and transparent goals, and we have stayed on message. In other words, we always endeavour to 'walk the talk'.

Rebuilding investor confidence will take time. Nonetheless, we are pleased with the 39.5% improvement in total shareholder return (share price improvement plus dividend) for the year to 30 June 2010. We stated at last year's annual meeting that our ongoing objective will be to achieve total shareholder returns superior to the NZX50 average. Our 39.5% total shareholder return compares to an NZX50 Gross Index return of 6.3% (excluding imputations) for the same period. This is encouraging.

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Conclusion

As I said earlier, I believe that Hellaby is now well positioned for what we still expect to be a relatively slow economic recovery. Although we have seen few 'green shoots' to date, our businesses are now so lean that we believe any improvement in sales revenues will have a disproportionately positive impact on our profits going forward.

We believe investor confidence in Hellaby is being gradually restored in line with our improved performance. We are determined to build on this turnaround through ongoing improvement in operational performance and making smart growth and investment decisions which consistently improve shareholder returns.

In summary, I can now confidently say we have dealt with our legacy issues and – despite the continued very poor economic conditions – Hellaby is now in good shape to take advantage of opportunities that may come our way. We have 'stayed on message' with our stakeholders and will continue to do so.

We are proud of our achievements and we now have momentum. Thank you for your support.